

To: All Interested Parties  
Date: January 25, 2008  
Re: San Jose Retiree Healthcare—Ideas and Concerns

I. Communication—It is good to know that the City recognizes a problem exists, and that it should involve ALL STAKEHOLDERS. However, the City needs to provide employees more time to read the materials, and evaluate them before conducting a meeting: two days is woefully inadequate, and causes one to question the City's sincerity in solving this massive problem. The process needs to be inclusive, planned, and thoughtful. In order to address ALL STAKEHOLDERS, are employees authorized to attend these meetings on City Time?

If the City is interested in ALL STAKEHOLDERS, then why are there no meetings being held at the Water Pollution Control Plant, the Central Corporation Yard, the Mabury Yard, and Muni Water? The City needs to make it easier to participate in the process if they want employees to believe they are truly interested in solving this problem.

II. Effective Communication—Inform ALL Employees, AND Retirees. Enable these individuals to attend the meetings. The City should solicit contrary, and different points of view, unlike the current practice of the Mayor meeting with a group of like-minded individuals to create a budget proposal that is rejected once the light of scrutiny is cast upon it. The City needs to be objective. Furthermore, the City's culture is such that anyone explaining or suggesting an alternative, or contrary point of view is deemed as Negative, not a Team Player, or a Troublemaker. Yet again, look at what happened to the Mayor's proposals once they were revealed beyond his "select audience". This has got to stop, if there is going to be any effective problem solving. Furthermore, all ideas must be recorded, and evaluated. If an idea is rejected, then there should be a justification as to why. In this case, ideas should be rejected based on the cost to implement, and/or whether or not the return on investment is negative. The person that submitted the ideas must be informed as to what the status of the idea is. Currently, it seems that a vast multitude of ideas have been submitted, and duly ignored by the City. Whatever happened to the Employee Suggestion Program? I submitted multiple cost saving suggestions years ago, only never to hear anything in response. The City needs to invest time, resources, and funding into a continuous and on-going process that ensures that the employee's ideas are at a minimum evaluated, and responded to if not implemented. Currently, this is NOT happening. Feedback should be done in writing.

III. Commitment—The Mayor, and Council MUST provide, approve, and recognize the need for ongoing funding and RESOURCES. They simply cannot fund something because the item at hand became a "political mushroom cloud". There needs to be some planning here. The proposal of just three meetings to address 7,000 employees is inadequate. Many employees do not work on Friday. All three meetings are on Fridays, this seems to indicate a lack of planning at best. If the Mayor, and Council are serious about this issue then they as well as the City Manager need to talk to everyone involved. Otherwise, it just appears as lip service.

The Mayor, and Council, and the City Manager must invest a sufficient amount of TIME to address this problem. These problems developed over many years, and they won't be solved overnight. The Mayor, the Council, and the City Manager need to create an ALL STAKEHOLDER INCLUSIVE PLAN to address these issues. The above folks need to Cease and Desist the divide and conquer mentality if they want the best possible outcome.

#### IV. Multiple Solution Approach

The solution may require multiple approaches. Perhaps in addition to the 25% IRS Medical Accounts, there should be Long Term investments that exceed the rate of inflation: currently, cited as 2.6% over 20 years per the Department of Labor. Other sources show inflation at 6.7% for 2007. The term, and the value in percent for inflation need to be well defined.

We may need to look at something akin to a deferred compensation package for medical costs, if this is possible.

The goal should be 100% funding in order to prevent additional costs later. All funds must be secure, and not subject to the whims of the Council and others. The money should be only accessible to those individuals that invest in the plan. If you don't invest, then you don't benefit.

Another possibility is an opt-out program. In lieu of Health Care benefits, the retiree receives a stipend. It is up to the retiree to obtain medical coverage. If the retiree changes their mind, then they would need to reimburse the plan. Mechanisms should be put in place to prevent incompetence, abuse, or malfeasance. Quality Assurance, and Quality Control programs should prevent fiscal incompetence, if done properly.

#### V. Additional Goals

Minimize costs to the program. Optimize administration costs, but do not minimize oversight. Since this is a retiree program, then it should be fiscally conservative, and secure.

The City should develop a Health Program. Perhaps, invest up to 5% of retirement funds, with strict oversight, for disease prevention, recommended daily exercise programs for all current employees and retirees, flexible work hours and still 40 hours/week. An exercise program could be sponsored by the City with respect to availability of facilities; however, the employees would participate on their own time. Other goals should include stress management: exercise, diet, self-hypnosis, acupressure, meditation, etc. Then, these programs should be evaluated over a period of time. If they are cost effective, keep them; else, drop them. Alternatively, if employees still want them then the employee would bear the cost.

The main emphasis of these related programs should be on prevention. The cost of those employees on these prevention plans should be compared to those that are not. If the cost of prevention plans reduces the overall net cost of the Medical plan(s), then the prevention plan should continue and be evaluated for additional cost savings. All such plans should be scrutinized for effectiveness. On the other hand if the prevention plans are not effective, then they should stop and that needs to be documented as well.

Another emphasis should be on self-help. Employees would improve their overall health through "Non-medical" plans as much as possible. Some of these ideas are listed above. The medical plan problem should be evaluated holistically: are there things we can do that not only reduce the costs of medical insurance, but also reduce the "need" or "use" of medical insurance? If we can cut down on how often these services are used, then ideally we should be able to reduce the expenditures for services proportionally. Any savings could then be "saved" into each employee's/retiree's medical account, or some other mechanism for "rewarding" those that don't routinely use their medical plan.

All plans/activities would be subject to a cost/benefit analysis.

VI. Tiered Medical Care—City creates an "Intermediate Medical Plan", or multiple "Medical Plan"

- A. \$100/Year—Employee/retiree consults a web site for minor health issues, and uses over the counter pharmaceuticals. Self-help approach.
- B. \$1000/Year—Employee/retiree consults Doctors and Nurses via a web site for routine, and relatively benign problems. Doctor makes a determination based on e-questionnaire, and discussion with patient. Perhaps, antibiotics and other "low-risk" pharmaceuticals are prescribed. This Self-Help Plan should have an Arbitration Agreement to minimize lawsuits. Employees/Retirees should feel like the plan belongs to them in order to foster a desire to minimize costs for everyone.
- C. \$10-\$15,000/Year—Current medical plans. Most likely will continue to escalate at 10%/year. May not be cost effective for benefits received. The City does not seem to have any control over these costs.
- D. Catastrophic Illness Plan—Employee/retiree would only be eligible for a narrowly defined set of conditions.
- E. Other Illness Plan—Create a plan that provides that most coverage for the least cost. However, rare or expensive treatments would not be covered. I believe physicians in the State of Oregon developed this type of plan some years ago.
- F. Multiple Plans—The employee/retiree purchases as many health plans as they can afford. This would most likely be the best solution, since the individual can decide how much coverage they want, or afford.
- G. City Health Clinic—The employee/retiree could go to a City Health Clinic to address mild to moderate health problems. The cost of such a proposal would need to be determined. At least in this case, the City would have direct control over the cost, and what items would be covered. Additional insurances would be required for hospitalization though. However, what

would be covered should be determined by medical doctors, AND NOT bureaucrats as is the case with the current insurance industry model.

This model could be further refined based on cost and needs of the individual employee, or retiree. For example, one employee/retiree may want coverage for immunizations for dependent children, while a different employee/retiree does not have dependent children and thus they would not need this coverage. The insurance coverage would have to be very explicit about what was covered and what is not covered.

The last model for the City Health Clinic would be not for profit health care. This model should be fiscally neutral with an Arbitration Agreement in place to minimize, and limit lawsuits.

All of these plans would need to be evaluated for cost effectiveness. All of these plans are possible, but is the City willing to spend the funds to investigate? Additionally, what is the City doing to mitigate costs? Are they seeking multiple bids? Currently, there are only 3 health plans: Blue Shield HMO, Blue Shield PPO, and Kaiser. Is the City attempting to pursue additional competitive bids?

#### VII. Additional Concern

If the annual rate of inflation is 2.6% over 20 years, and the average annual salary increase is 3.7% over 20 years, then the net increase for the employee is only 1.1%. The 1.1% net increase is the "true value" that should be compared to the medical rate increase of about 10% over that same 20 years. Hence, the rate for the medical cost is 9 times greater than the net buying power of the employee on an annual basis.

Simply:  $(\text{Employee Salary Raise}) - (\text{Inflation Rate}) = \text{Net Employee Salary Raise}$ ,  
 $\text{Net Employee Salary Raise} / \text{Medical Costs Raise}$

The above views are my own, and do not necessarily reflect the views of others. I would be interested in participating in this process.

Submitted by:

Jon Max Reger  
Environmental Inspector II  
City of San Jose – ESD  
Watershed Protection Division  
FOG & Sewer Investigations Section  
170 West San Carlos Street  
San Jose, CA 95113  
(408) 277-3899